

SOCIAL ACTION SANITATION PROGRAM

(BR-0269)

EXECUTIVE SUMMARY

Borrower:	Federative Republic of Brazil	
Executing agency:	Special Secretariat for Urban Development (SEDU)	
Amount and source:	IDB (OC):	US\$100 million
	Local:	<u>US\$100 million</u>
	Total:	US\$200 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	4.5 years
	Disbursement period:	4.5 years
	Physical start-up of works:	3 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	US\$ from the Single Currency Facility
Objectives:	The general objective is to help the country narrow socioeconomic inequalities by improving water supply and basic sanitation services for low-income users in small urban communities.	
	The program's specific goals are to: (i) expand coverage and improve water supply and basic sanitation systems in low-income communities; (ii) strengthen business management; and (iii) help SEDU conduct sector studies on access to services by low-income groups.	
Description:	The operation has been planned around three components:	
	<ol style="list-style-type: none"> 1. Construction of potable water and basic sanitation systems (US\$168 million), to improve and/or expand the water supply and basic sanitation services in communities with a mainly low-income population, and promote a sustainable system for operation and maintenance of the systems built. Carried out according to the Operating Regulations, this component will finance construction works, improvements and expansion of the systems, which includes construction of intra-residential installations. The activities under this component are: 	

- a. Rehabilitation, improvement or construction of systems (US\$165 million), which includes:
 - (i) **Potable water supply systems**, involving activities at every phase of service delivery: intake, conveyance, treatment, storage and distribution.
 - (ii) **Basic sanitation systems**, involving activities at every phase of the service delivered by way of a sewer system: collection, conveyance, treatment and disposal.
 - b. *Hygienic and environmental education* (US\$2 million), to improve the beneficiary communities' understanding of the *health-sanitation-environment* interaction so that beneficiaries are better able to identify with the program and make proper use of the systems built and their natural resources.
 - c. *Instruction for environmental agencies* (US\$1 million), involving training for state environmental control agencies and executing agencies with a view to improving the environmental quality-control systems of the water and sewerage projects and thereby expedite their environmental licensing.
2. **Business management (US\$7.5 million)**, to strengthen service providers that do not currently meet the requirements to access the program. Funds are planned to improve management of these businesses so that they are financially self-sustaining and achieve the financial performance level required to access the program. To that end, funding will be provided for programs in operating and management performance aimed at lowering the utilities' operating expenses and/or increasing revenues. Also, support will be provided to municipalities wishing to create an independent service provider that will enable those communities to access the systems-construction component. These municipalities will receive support with (i) preparation of a diagnostic study to ascertain what the institutional alternatives are for creating a provider institution; and (ii) the competent authority's approval and implementation of the best alternative.
 3. **Sector studies (US\$2 million)**, to further development of the federal government's policy in the water supply and basic sanitation sector, which SEDU is implementing. The component will finance studies and consulting services for making these services available to low-income groups, such

as: (i) a nationwide tariffs study; (ii) a nationwide study on subsidies; (iii) the introduction of policies, involving consulting services to help SEDU oversee preparation of the studies mentioned above, and consulting services to support state water supply and sanitation regulatory agencies with the drafting of regulations and standards on the subjects these studies will address.

**The Bank's
country and
sector strategy:**

The Bank's action in Brazil over the 2001-2003 period will focus on four strategic areas: modernization of the State, competitiveness, poverty and the environment. The Bank will be deepening its action in the area of administrative and fiscal modernization at the federal, state and municipal levels. In the area of competitiveness, the action will include efforts to restore infrastructure investment to previous levels and establish adequate regulatory frameworks. To combat poverty, the Bank's action will work to introduce and further reform in the social sectors, including urban and municipal development, in order to provide the public with better, more efficient and more equitable services. Within the sanitation sector in particular, the Bank will continue to support establishment of regulatory frameworks that enable the services to achieve long-term self-sustainability, make access to the service available to large sectors of the population, enlist the participation of private business, make delivery of the services more efficient and protect the environment. Finally, the Bank's work on the environmental front places particular emphasis on urban sanitation, which means the water supply, sewerage, disposal of wastewater and solid waste, and environmental pollution in general.

**Environmental
and social
review:**

The works to be performed under the program will help improve public health and hygiene. During the analysis mission, a review was done of the environmental analysis of the projects in the program's representative sample, as was a global environmental evaluation of the program. Particular attention was paid to the following: (i) the quality of the river water in sewage treatment projects, with a view to other possible uses of the water downstream; (ii) the risks that inadequate operation could pose as a source of potentially adverse environmental effects, particularly with respect to the quality of the water to be delivered; (iii) involuntary displacement of families and the opportunity that women and other vulnerable groups have to contribute to and share in the program's benefits. The conclusion drawn from this analysis was that the negative environmental and social impacts of these works will be minimal. Mitigating and environmental compensation measures for them were built into the operating regulations.

Benefits:

The program will expand water supply and basic sanitation services so that they reach mid-sized communities that do not presently have

those services. The program's impact will be positive since access to water supply and sanitation services will improve the health and quality of life of the beneficiary population. The program will be particularly targeted at communities whose population is predominantly low-income. It thus becomes a tool for alleviating poverty.

The program will also be instrumental in developing a direct and transparent subsidy mechanism that will enable low-income people to get access to service. This will help guarantee the service's long-term sustainability and the service provider's financial viability will not be placed at risk.

Risks:

The program's main risks are three: (i) that demand for the projects may not be sufficient. To mitigate this risk, the program has been scaled back from its original size of US\$500 million to US\$200 million, taking into account the pipeline of projects for which SEDU now has final designs and the analysis of a representative sample of projects; (ii) that service providers will be unable to meet the minimum requirements to qualify for the program. To mitigate this risk, the financial condition of the service suppliers in states with projects in the sample has been examined and a component has been included to strengthen business management so that service providers will be able to meet the eligibility criteria; and (iii) that resources will not be sufficient to operate and maintain the program-financed systems properly. However, the financial condition being required of the service providers is adequate for the projects to qualify, which will offset the risk of insufficient funds. Then, too, one condition being required is that the tariffs the beneficiary communities are to pay be sufficient to cover, at least, the operation and maintenance of the systems being financed.

Special contractual clauses:

Prior to the first disbursement:

- (i) Creation of the program coordinating unit, with hiring and appointment of the necessary staffing (paragraph 3.1).
- (ii) Completion of the prequalification process for selection of the management firm to assist with program execution (paragraph 3.3).
- (iii) Entry into force of the version of the program Operating Regulations (paragraph 3.6) previously cleared by the Bank.
- (iv) Presentation of the draft agreements for execution of the works and business management components (paragraphs 3.12 and 3.15).

Other special conditions during program execution:

- (i) **Conditions precedent to the call for tenders on each work:** (1) signature of the agreement between SEDU and the municipality in question on transfer of the necessary funds so that calls for tenders can be issued for each work (paragraph 3.14); (2) granting of the installation license by the state environmental and/or water management authority and fulfillment of any conditions it may set; and (3) evidence of public consultations, beginning with circulation of the project's environmental brief to inform the community affected at least one month before tendering begins; and (4) where population resettlements are required, presentation of the respective resettlement plan, prepared in accordance with Bank policy.
- (ii) **Condition precedent to start-up of the works:** Where the work necessitates resettlement, evidence that the respective resettlement plan has been fully carried out (paragraph 3.22).
- (iii) Tariffs charged by municipalities are enough to cover, at least, the costs of operating and maintaining the systems (paragraph 3.18).
- (iv) Signature of the contract with the management firm within six months after the date on which the loan contract is signed (paragraph 3.3).
- (v) Within 24 months after signature of the loan contract or when one half of the funding for program direct costs have been committed, whichever comes first, a midterm evaluation of program execution will be performed (paragraph 3.32).
- (vi) If, upon review of the contracts for the business management and construction components, it is found that (i) a breach of contract has occurred that could jeopardize the project or the purpose of the financing, the Bank will be entitled to suspend disbursements; and (ii) any restriction or modification in the legal structure, functions, or equity of the parties has occurred, the Bank must be notified in advance so that it can review the situation and issue its concurrence (paragraph 3.13).
- (vii) The Bank will recognize as local counterpart funding under the program all expenses incurred by SEDU to a maximum of US\$2,478,500 (paragraph 3.27).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity-enhancing project, as described in the key objectives for the Bank's activities in the report on the Eighth General Replenishment (document AB-1704).

Exceptions to Bank policy:

There are no exceptions to Bank policy.

Procurement:

In the case of the systems construction component, the state water supply and basic sanitation agencies will be responsible for procurement of the necessary goods, services and works; the states will perform these functions in the case of the business management component, while SEDU will perform them for the component on policy-development studies. Bank standards and procedures will be followed in all cases. The construction works for the systems can be tendered by lot, with each lot consisting of at least three systems. International competitive bidding will be required for procurements of goods valued at US\$350,000 or higher, for construction works valued at US\$5 million or more, and consulting contracts valued at US\$200,000 or higher. The bidding on goods and services below these thresholds will proceed in accordance with Brazilian law, which is consistent with Bank procedures. The projects to build the various systems can be grouped into packages for purposes of tendering, although participants may choose to make offers on specific works within a package. The consulting services will be engaged in accordance with the Bank's standards and procedures.